

At the February 2001 meeting, the council approved the “Points of Consensus Among the University Presidents, KCTCS President, and the Council President Concerning the 2002-04 Funding Methodology” (Attachment A). This document evolved over several months through meetings of the presidents, the chief budget officers, the chief academic officers, and the Operating Budget Review Subcommittee of the Strategic Committee on Postsecondary Education. The “Points of Consensus” is a framework to guide the development of the council’s 2002-04 operating and capital budget recommendation.

Tuition and fees revenue plays an important part in developing the 2002-04 operating budget recommendation. Within the framework of the “Points of Consensus,” the staff has developed the attached draft 2002-04 tuition-setting guidelines (Attachment B). Draft guidelines were discussed at the chief budget officers’ March 1 meeting and the presidents’ March 7 meeting. The attached draft reflects the discussions from these meetings.

The staff seeks council guidance on the tuition-setting guidelines. After discussion by the Finance Committee and additional discussions with the presidents and chief budget officers, the council staff will bring a recommendation on the 2002-04 tuition-setting guidelines to the May 21 council meeting.

Background

The institutions will continue to have the authority to set tuition rates for 2002-04. The rates will be set within guidelines approved by the council. The institutions will report the tuition rates and projected tuition and fees revenues to the council by September 1, 2001. The attached draft departs from the 2000-02 guidelines in three major ways:

Per-Credit-Hour Rates

Tuition rates would be set and assessed per credit hour, and tuition for full-time students would no longer be capped. There are three primary reasons to consider change:

- ***Equity***

Perhaps the single most important argument for establishing tuition and fees rates per-credit-hour is equity. As of fall 2000, approximately 37 percent of all public postsecondary education students are enrolled part-time. The number of part-time students has increased 20 percent since fall 1997, much more than the 8 percent increase in full-time students. All students, regardless of their credit-hour load, would bear the same unit cost under per-credit-hour pricing. Now, a flat rate is assessed for a range of credits at or above a minimum threshold (typically, 12 credit-hours). Full-time students benefit from a reduced cost per-credit-hour. With per-credit-hour pricing, all students would pay the same unit cost for instruction.

- ***Efficiency***

Under traditional pricing, full-time students typically enroll in more courses than they intend to complete.

Courses that are barely cost-effective to offer at the beginning of a semester often become cost-ineffective as students withdraw from the course. Per-credit charges would encourage students to more seriously consider their course loads when they register, giving instructors and administrators a more accurate sense of enrollments.

- ***Distributed Learning***

Pricing is an important factor in developing incentives for distributed learning. Students should not be penalized for taking courses from institutions other than their “home” institution, nor should they receive an unfair subsidy for on-line courses taken from their current institution. Per-credit charges would encourage students to register for a course that best fits their needs, regardless of which institution is offering the course.

Differentiated Undergraduate Tuition Rates by Residency

Undergraduate tuition would be lower for Kentucky residents than for non-residents. Institutions were given complete flexibility in setting tuition for this biennium. Several eliminated the difference between resident and nonresident rates for undergraduate students from selected areas in bordering states. A survey of the benchmark institutions reveals that nonresident undergraduate rates vary from 1.5 times to more than five times the resident rates, with a median of about two to three times the resident rates.

Although Kentucky seeks to increase educational attainment, the question of who bears much of the cost of nonresident students is regularly debated. The staff recommends higher out-of-state than in-state rates so that state appropriations do not subsidize all nonresident students at the same level as resident students. However, the staff recommends giving the institutions the flexibility to determine the difference between resident and nonresident rates.

Tuition and Fees Revenue

Consistent with the “Points of Consensus,” a standard will be used to determine the tuition and fees deduction for 2002-04. The 2002-04 budget recommendation will continue to be based on benchmark funding. An important part of the model is determining the amount of public funds that should be generated with tuition and fees revenue. Public funds include tuition and fees revenue and state and local appropriations. For the current biennium, budgeted tuition and fees revenue was deducted from the benchmark public funding amount to establish the state appropriation objective for each Kentucky institution. In 2002-04, a set percentage or budgeted tuition and fees, whichever is lower, would be deducted from the public funding amount to determine the state appropriation objective for each institution.

The “Points of Consensus” states that the amount of tuition and fees revenue as a percentage of public funds should be lower for the Kentucky Community and Technical College System than for public universities. The “Points of Consensus” also states that the council is committed to enhancing Kentucky State University. The staff recommends that a lower percentage is appropriate for KCTCS, Lexington Community College, and Kentucky State University. The lower percentage for KCTCS and LCC would reflect the state’s commitment to open access to postsecondary education for all Kentuckians. The lower percentage for Kentucky State University is appropriate given KSU’s special status as the state’s historically black institution and to provide greater access for the student population it serves.

KCTCS, LCC, and KSU have an average percentage of tuition and fees revenue compared to total public funding of 36 percent. The percentages range from 22.5 percent to 58.1 percent. A review of about 850 community colleges reveals a median percentage of tuition and fees revenues of 29 percent. The staff recommends that the standard percentage for KCTCS, LCC, and KSU be set at 30 percent.

Based on 2000-01 data, the public universities, excluding KSU, have a median percentage of tuition and fees revenue compared to total public funding of about 35 percent. The percentages range from 27.6 percent to 50.5 percent. A review of the benchmarks reveals a median percentage of tuition and fees revenue of 37 percent. The staff recommends that the standard percentage for the public universities, excluding KSU, be set at 37 percent.

Institutions with tuition and fees revenue percentage below the applicable funding standard should strive to increase the percentage over the next biennium. These institutions are expected, at least, to maintain the current percentage of tuition and fees revenue to total public funds during 2002-04.

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**Points of Consensus among University Presidents, KCTCS
President, and the Council President
Concerning the 2002-04 Funding Methodology
February 5, 2001**

I. Base Funding

Provision 1: In recognition of the Commonwealth's commitment to an excellent system of postsecondary education and postsecondary education's linkage to economic development growth, recommendations for funding to be appropriated to the base budgets of the universities and the Kentucky Community and Technical College System will provide the following:

- a) An inflationary increase as provided to other agencies of state government.
- b) Maintenance and operation funds to support new educational and general buildings approved by the General Assembly.
- c) Changes in debt service requirements for institutional bond issues supported from state appropriations and to be paid by the institution.
- d) The benchmark method is one of several acceptable approaches to establish institutional base budgets and should be retained to determine equity adjustments to the base General Fund appropriations to the institutions. However, the current model will be supplemented and strengthened. Institutions will have the opportunity to negotiate the replacement of up to five institutions from their current benchmark lists. In addition, the benchmark method should be augmented to address the differential costs related to new undergraduate and graduate enrollments through a new Enrollment Growth and Retention Trust Fund (Section II).

Clarifying Statements

- Based on actions of the council, the governor, and the General Assembly to reaffirm the state appropriation bases of institutions, no redistribution among institutions of existing institutional General Fund base appropriations should occur. Institutional General Fund base budgets should not be reallocated through the state budgeting process.
- General Fund appropriations to institutions should continue to be lump sum with necessary accountability requirements.
- Institutions should continue to have the delegated authority to set tuition rates.
- The annual General Fund base increase request should be, at a minimum, the percentage provided to state agencies in the Legislative Research Commission's promulgated biennial *Budget Request Manual*.

- The benchmark method will involve a review of benchmark institutions using objective data consistent with the existing selection criteria. Universities with medical schools will not be considered as benchmark institutions for the Kentucky comprehensive universities.
- Adjustments to institutional base budgets should include across-the-board inflationary increases for all institutions as well as adjustments resulting from the benchmark process.
- The cost differential related to new undergraduate and graduate enrollments should be addressed through a new Enrollment Growth and Retention Trust Fund (Section II).
- If feasible, a study should be undertaken to identify General Fund debt service at the benchmark institutions. The identified General Fund debt service amounts should be factored out of data for both the Kentucky institutions as well as the benchmark institutions.

Provision 2. Actual tuition should not be an offset against General Fund appropriations.

Clarifying Statements

- Kentucky's funding approach needs to reflect the shared funding responsibility between the state and the student (tuition).
- A uniform standard for determining the tuition deduction from the calculated public funds amount should be developed. The standard deduction should be lower for KCTCS than for the universities.

Provision 3. The council and the institutions should identify and agree upon mandated public service and research programs having no student enrollments or instructional function. These will be factored out of benchmark funding evaluations.

Clarifying Statements

- Institutions should identify state-funded mandated public service and research programs funded through General Fund appropriations having no student enrollments or instructional function. These programs could be identified through, for example, a search of the Kentucky Revised Statutes. Institutions should provide appropriate documentation including the date the program was created and the levels of General Fund support over time.
- In order for the removal of mandated programs to be useful in the benchmark process, public service and research General Fund appropriations should be treated as consistently as possible across all Kentucky institutions and their respective benchmark institutions. If feasible, a study should be undertaken to identify similar mandated programs at the benchmark institutions. Such General Fund appropriations should be factored out of data for both the Kentucky institutions as well as the benchmark institutions.
- The institutions and the council should strive to have mandated programs separately identified in future budget bills to clarify each institution's base General Fund operating appropriation.

II. Trust Funds

Trust funds should be maintained. An Enrollment Growth and Retention Trust Fund should be recommended and should recognize the differentiated costs of undergraduate and graduate instruction. Funding amounts should be based on the council's recommended benchmark funding objectives and upon enrollment and retention goals negotiated with each institution.

Clarifying Statements

- The trust funds approach is important for assuring the achievement of *Strategic Agenda* goals. Distribution criteria for each trust fund, including the criteria for determining institutional allocations and matches (if any), should be part of the council's 2002-04 budget request.
- Enrollment growth and retention funds should be requested through an Enrollment Growth and Retention Trust Fund with performance goals negotiated with the institutions as the criteria to access funds.
- The Enrollment Growth and Retention Trust Fund should recognize the differentiated costs of increased undergraduate and graduate enrollments. Funding amounts for the Enrollment Growth and Retention Trust Fund should be based on each institution's benchmark funding objective per FTE.

III. Special Funding

Funding of special and meritorious initiatives may be designated by the council for flow-through funding; however, guidelines will be promulgated well in advance.

Clarifying Statements

- Criteria for the council's evaluation of special initiative requests will be established early in the process.
- The Commonwealth, through its partnership agreement with the U.S. Office for Civil Rights, is committed to enhancing Kentucky State University. KSU and the council should fulfill this commitment through further discussions.
- Institutions should be provided an opportunity to request increases in General Fund appropriations for mandated programs that have been factored out of the benchmark process.

IV. Endowment Match Program

The Endowment Match Program should be retained.

Clarifying Statements

- Matching requirements play an integral part of the Endowment Match Program by providing incentives for private fund-raising.
- Matching funds received from private donors for the Endowment Match Program should be endowed.
- Special consideration may be given to institutions with demonstrated difficulty in meeting matching requirements such as additional time to match their allocated state funds.

V. Space Planning Guidelines

The space planning guidelines will be further reviewed as to coding of research space, quality of space, and fitness for purpose.

Clarifying Statements

- The council should submit a capital projects recommendation for the 2002-04 biennium to the governor and the General Assembly based on requests submitted by institutions under guidelines developed by the council early in the budget process. The Space Planning Guidelines will be revised to address coding of research space, quality of space, and fitness for purpose.
- Capital funding guidelines should allow for requests for capital renewal of existing facilities, equipment replacement, and equipment acquisitions consistent with the goals of House Bill 1 and the *Strategic Agenda*. The council should advance requests for new facilities when necessary to accomplish a specific strategic goal or support the mission of the institution.
- The Capital Renewal and Maintenance Program should continue to be based on projects recommended by the council.
- The council should continue to recommend a sufficient agency bond pool amount and recommend that institutions have the autonomy to bond their own projects without affecting the state bonding capacity.

**Tuition-Setting Guidelines for 2002-04
WORKING DRAFT
March 19, 2001**

Each institution will establish its own tuition rates consistent with the following guidelines. The council's biennial budget request for state general operating funds will consider tuition and fees revenue based on these guidelines.

- Rates are to be set and charged per credit hour.
- Rates may be differentiated by factors such as student level (undergraduate, graduate, and first professional) and program (for example, business or biology).
- Undergraduate rates must be differentiated by residency. Resident tuition rates as a percentage of per capita personal income will continue to be monitored by the council to ensure that postsecondary education remains affordable to Kentuckians.
- The rates should generate tuition and fees revenue at a level that is consistent with the council's funding guidelines. KCTCS, LCC, and KSU's tuition and fees revenue should generate at least 30 percent of the total public funding for each institution. The tuition and fees revenue for the remaining institutions should generate at least 37 percent of the total public funding for each institution. Institutions with tuition and fees revenue below the funding guidelines recommended proportion should strive to increase that percentage over the biennium. These institutions must at least maintain the current percentage of tuition and fees revenue in public funding during the 2002-04 biennium.
- Each institution will submit planned biennial tuition rates and projected tuition and fees revenue for 2002-03 and 2003-04 to the council by September 1, 2001, for developing the council's 2002-04 biennial budget request.